



Arizona State Retirement System Terrorism Divestment Policy

A POLICY, relating to: how the Arizona State Retirement System shall address the terrorism country divestment requirement in Arizona Revised Statutes, Title 35, Chapter 2, Article 8 (§35-392).

Background and Authority

Pursuant to §35-392, Arizona Revised Statutes, as added by Laws 2007, Chapter 201, the Arizona State Retirement System is required to adopt a Policy regarding investment in U.S. companies that do business in or with the countries currently designated by the United States Department of State as State Sponsors of Terrorism.

As required by §35-392, the Policy includes the following:

1. The procedure to identify United States companies that are in violation of Section 6(j) of the Export Administration Act.
2. The process for communicating with the companies and appropriate federal officials regarding actions taken pursuant to the Policy.
3. The process for divestment from the companies that are identified.

ASRS may delegate any of its duties under this Policy to a third party.

Section 1: Definitions

1. **“ASRS”** means the Arizona State Retirement System.
2. **“Business Ties”** means operations, facilities, other company locations, or direct presence of company employees or representatives (equity ties); business involvement without physical assets or employees (non equity ties); or any other type of tangential business involvement, such as a correspondent bank relationship (other ties).
3. **“Company”** means any United States sole proprietorship, organization, association, corporation, partnership, joint venture, limited partnership, limited liability partnership, limited liability Company, or other entity or business association, including all wholly-owned subsidiaries, majority-owned subsidiaries, parent companies, or affiliates of such entities or business associations that exist for profit-making purposes.
4. **“Direct Holdings”** means all publicly traded equity securities of a Company that are held directly by the ASRS or in an account or fund in which the ASRS owns all shares or interests.

5. **“Indirect Holdings”** means all investments held in an account or fund, including a mutual fund, a real estate fund, a private equity fund, or a commingled fund managed by one or more persons who are not employed by the ASRS, in which the ASRS owns shares or interests together with other investors. Further, all private funds shall be deemed to be indirect holdings.
6. **“Prohibited Holdings List”** means a list of Companies that have violated Section 6(j) of the Export Administration Act and in which the ASRS has Direct Holdings.
7. **“Scrutinized Companies List”** means a list of Companies that have violated Section 6(j) of the Export Administration Act.
8. **“State Sponsor of Terrorism”** means a country that the United States Department of State has determined to have repeatedly provided support for acts of international terrorism and has published or designated as a State Sponsor of Terrorism.

Section 2: Identification of Companies

A. ASRS shall research all Companies with ongoing Business Ties to one or more of the countries designated as a State Sponsor of Terrorism. The research on such Companies will be compiled by reviewing a variety of sources including but not limited to: Company annual reports, SEC filings and financial statements; Company press releases and other public statements; U.S. Government reports, including monthly reports published by the U.S. Department of Treasury Office of Foreign Assets Control; Financial directories; Media reports; Non-government organizations and civil society research reports.

B. ASRS shall review the all-Company research to identify those Companies that have violated Section 6(j) of the Export Administration Act in the past 365 days, namely that the Company has failed to hold a valid license to export goods or technology to a State Sponsor of Terrorism. The Companies identified pursuant to this subsection shall be compiled into the Scrutinized Companies List, except that a Company shall not appear on the Scrutinized Companies List if any of the following apply:

1. The Company has remedied its violation by securing a valid license to export goods or technology to a State Sponsor of Terrorism.
2. The Company is no longer in violation of Section 6(j) of the Export Administration Act for other applicable reasons.
3. The Company holds a validated license to export goods or technology to a State Sponsor of Terrorism.

The Scrutinized Companies List shall be updated annually, although the Scrutinized Companies List may be revised more frequently if a Company no longer meets the requirements of this subsection.

C. ASRS shall complete a thorough audit of its portfolio of holdings to determine in which Companies on the Scrutinized Companies List it has direct holdings. The Companies identified pursuant to this subsection shall be compiled into a Prohibited Holdings List. The Prohibited Holdings List shall be updated annually, although the Prohibited Holdings List may be revised more frequently if a Company no longer meets the requirements of this subsection.

Section 3: Communications

A. For each Company on the Prohibited Holdings List, ASRS shall send a written notice informing the Company of this Policy and that the Company is not eligible for investment by ASRS and may be subject to divestment under this Policy and encouraging the Company to adhere to the Export Administration

Act. ASRS shall send a written notice informing the Company if the Company is removed from the Prohibited Holdings List.

B. For each Company on the Scrutinized Companies List, ASRS shall send a written notice to the United States Attorney General, the United States Secretary of State, and Arizona's Representatives in Congress and the United States Senate providing the Company's name, the reason for including the Company on the Scrutinized Companies List, and that the Company is not eligible for investment by ASRS and may be subject to divestment under this Policy. ASRS shall send a written notice informing these individuals if a Company is removed from the Scrutinized Companies List.

Section 4: Investment, Divestment, and Reinvestment

A. Companies on the Prohibited Holdings List are not eligible for investment by ASRS as a Direct Holding.

B. ASRS shall sell, redeem, divest or withdraw all publicly traded equity securities of a Company on the Prohibited Holdings List according to the following schedule:

1. At least fifty percent of assets shall be removed from ASRS's assets under management within twelve months after the Company's most recent appearance on the Prohibited Holdings List.
2. One hundred percent of assets shall be removed from ASRS's assets under management within eighteen months after the Company's most recent appearance on the Prohibited Holdings List.

C. ASRS shall send a written notice to the Governor of Arizona, the Arizona State Treasurer, the President of the Arizona Senate, the Speaker of the Arizona House of Representatives, the Director of the Arizona Department of Administration, and the Director of the Public Safety Personnel Retirement System notifying them of a divestment under subsection B and the reason for the divestment.

D. ASRS may cease divesting from Companies on the Prohibited Holdings List or reinvest in Companies from which it divested pursuant to subsection B if a preponderance of the evidence shows that the value of the assets of the affected account of ASRS becomes equal to or less than ninety-nine and three-quarters percent of the hypothetical value of the assets of the affected account of the ASRS assuming no divestment had occurred under subsection B.

E. ASRS shall send a written notice to the Governor of Arizona, the Arizona State Treasurer, the President of the Arizona Senate, the Speaker of the Arizona House of Representatives, the Director of the Arizona Department of Administration, and the Director of the Public Safety Personnel Retirement System notifying them of a cessation of divestment or a reinvestment under subsection D.

Section 5: Notification

ASRS shall submit this Policy and any subsequent amendments thereto to the Governor of Arizona, the President of the Arizona Senate, and the Speaker of the Arizona House of Representatives. The Policy shall also be made available to the public.